AGRICULTURAL OUTLOOK DIGEST

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PLANTING PREVIEW SHOWS ACREAGE BETTER BALANCED

Crop producers are shifting resources to provide a smaller feed grain crop but more cotton and soybeans.

An early poll of farmers' intentions in January hinted modest acreage cuts for feed grains, modest gains for cotton and soybeans. The March 1 prospective planting report shows that crop producers are now planning further moves in these directions, thanks partly to USDA program options offered since January.

Feed Cuts

Total area likely to be planted to 16 major crops this spring adds up to 201 million acres, 10 million below last season, yet more than in 1970. The cut centers on feed grains; corn is off 5.6 million acres and sorghums 2.8 million acres. Projected output based on farmers' March 1 intentions and recent yield trends suggest 68½ million acres planted to corn would produce 5.1 billion bushels, 7 percent less than last year; sorghum output would be down a tenth to 808 million bushels.

For food grains, a little more rice and a little less wheat are in prospect. Prospective rice acreage is about equal to 1971 plantings. An indicated sharp retrenchment in spring wheat output offsets a tenth more winter wheat; however, wheat farmers responded to recently offered USDA options to increase set aside or not harvest winter wheat, which could hold wheat output under the 1971 record.

Intended cotton acreage is up a tenth. With further soybean acreage expansion by producers, projected output for 1972 is modestly larger than last year.

MILK SUPPORT: NO CHANGE

USDA announced in late March that the manufacturing milk support will stay at $4.93 per hundredweight for the year beginning April 1, 1972.

Farmers' prices for manufacturing grade milk (at annual average fat test) didn't reach the support rate until December. But recently they have been running a little over $5.00. Manufacturing grade prices came to $4.85 for 1971 and all milk prices averaged $5.86, 3 percent higher than in 1970.

With no change in the support rate and a lackluster 1972 commercial market for milk and dairy products, prices for manufacturing grade milk may hold close to 1971 levels through summer, before rising seasonally in the fall.

ACREAGE, OUTPUT PROSPECTS

	Indicated 1972 acreage	Change from 1971	Projected 1972 production[1]		Change from 1971
	Mil. acres	Pct.	Millions	Unit	Pct.
FEED GRAINS	118.3	-8			
Corn	68.5	-8	5,100	bu.	-7
Sorghums	18.4	-13	808	bu.	-10
Oats	21.0	-4	862	bu.	-2
Barley	10.4	-6	447	bu.	-3
FOOD GRAINS	57.2	+1			
All wheat	55.4	+1	1,665	bu.	+2
Winter wheat (est. Dec. 1970)	42.2	+9	1,291	bu.	+11
Durum wheat	2.5	-12			
Other spring wheat	10.7	-19	374	bu.	-27
Rice	1.8	0	86	cwt.	+2
OILSEEDS	61.9	+5			
Soybeans	45.5	+5	1,244	bu.	+6
Cotton	13.5	+10	12	bales	+15
Peanuts	1.5	0	3,099	lb.	+3
Flaxseed	1.3	-21	16	bu.	-16
TOBACCO	0.85	+1	1,771	lb.	+2

[1] Assumes recent yield trends and normal growing conditions.

MORE MILK PRODUCED

U.S. milk output gained 1 percent in 1971, featuring gains of 3-4 percent in the Southeast and West. In 1972, higher output per cow is expected to more than offset a decrease in cow numbers; milk production could gain another 1 percent. Feed is cheaper this spring than last and the milk-feed price ratio is a record high. Encouragement comes from plenty of herd replacements, a fairly good labor supply situation, and slightly higher prices.

USDA to Take More

USDA is likely to wind up absorbing most of the added 1972 output. Large butter sales by CCC enlivened otherwise sluggish sales in 1971. But rising milk production abroad in 1972 will limit exports and little change is likely for domestic commercial disappearance. USDA bought dairy products equivalent to 7.3 billion pounds of milk last year.

Commercial disappearance is likely to stay near 109 billion pounds for the fourth year in a row. Any improvement would come despite slowing population gains, a sharp prospective decline in the proportion of children—our heavy milk drinkers—and the dairy sales record of recent years.

Declines are apt to continue for butter sales, which dropped 6 percent last year, and sales of fluid whole milk, cream mixtures, and canned milk.

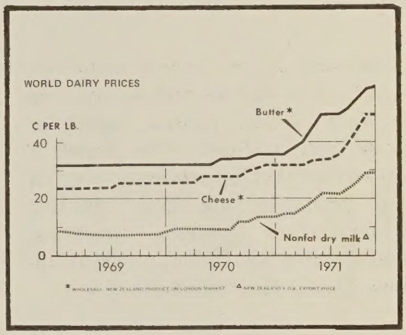
Rising sales trends should persist for low-fat milk, cheese and cottage cheese, and dry whey. Sales of nonfat dry milk seem likely to hold their own or rise in the next few years.

Exports Back Down

U.S. dairy export volumes this year are likely to fall somewhere between last year's unusually high levels and the levels of the late 1960's. Aggregated into milk equivalent, exports varied between a half and a full billion pounds from 1966 to 1970 but shot to 2½ billion in 1971.

Common Market farm policies discouraged European milk production in 1970 and 1971. Growing dissatisfaction caused a number of farmers to quit dairying. Bad weather cut milk output in New Zealand and Western Europe. As world milk output stabilized, rising demand for cheese put an extra pinch on butter production.

The result was a steep rise in 1971 world prices, shorter supplies in Europe, a burst of U.S. butter sales at special prices to Britain, and bigger exports of several other U.S. dairy products. Moves to increase foreign output should moderate the demand for imports from the United States this year, barring any more reversals on the world production scene. Even with more milk, world markets are unlikely to return to the low price levels of the late 1960's.



TOBACCO OUTPUT TO RISE

Tobacco farmers are planning to grow a little more tobacco this year.

The 1972 crop projected from March 1 planting intentions would be up about 4 percent from 1971, but wouldn't quite match 1972-73 requirements, leaving carryover lower in 1973.

Flue-cured growers report intentions to set 520,000 acres this year, slightly below last year's planted acreage. Yields on trend would cause a 3-percent decline in output to 1.04 billion pounds.

The main focus is on increased burley output. The basic USDA allotment for 1972 is a reduced 532 million pounds. When you allow for last year's undermarketings, however, the figure jumps to 612 million pounds, 57 million pounds over the 1971 quota, and 147 million pounds more than was marketed last year.

Burley growers plan to plant an additional 6 percent. Allowing for yield trends, that puts projected output at 569 million pounds and the projected 1972/73 supply 3 percent over this season's level.

Burley Use Slows

While burley supplies have declined a tenth since 1964, domestic use has declined, although use this season may about match the 504 million pounds (farm-sales weight) of last season. Exports in 1971/72 may do well to equal last season's level of 54 million pounds.

U.S. shipments of burley leaf fell 6 million pounds for October 1971-January 1972 because of smaller purchases by West Germany and Belgium. Greece has increased burley production in recent years and Greek burley enters the EC duty-free. Foreign production of burley tobacco gained 52 million pounds in 1971, a rise almost equal to a year's U.S. burley exports.

CIGARETTE SALES BOOM

American cigarettes are gaining at home and abroad. U.S. smokers broke the 1967 record and purchased 3 percent more cigarettes than in 1970. More cigarettes were smoked per person despite health warnings, but smokes per capita didn't approach the 1963 peak. The 4½-percent retail price rise in cigarettes in 1971 was less than the rise in per capita incomes. With yet more money to spend and more smoking-age Americans in 1972, total sales are likely to rise further.

Foreign smokers like our products, judging by the 15-percent rise in cigarette exports to $183 million worth last year. Rising foreign cigarette consumption means that exports could rise further this year.

LARGER CATTLE MARKETINGS AND BEEF IMPORTS

A temporary slowdown in commercial beef production in a climate of continuing strong consumer demand pushed up fed cattle prices and retail beef prices late last year and earlier this year. Cattle prices were the highest in 20 years; retail prices were record high. But increasing fed cattle marketings relative to 1971 levels, moderation in the decline in pork production from early 1972, and larger imports of meat will ease the upward price pressure for the remainder of the year.

Fed cattle prices have already dropped from mid-February highs but are more than $3 per 100 pounds (Choice steers at Omaha) above a year earlier. Prices will decline somewhat as fed cattle marketings pick up, but April-June prices still figure to hold above the $32.60 average of a year before. Retail beef prices have remained near the record levels of the last few months.

More fed cattle

The meat supply situation is changing now. Cattle slaughter will be moderately larger than a year earlier this spring and the rest of 1972. Cattle feeders placed 10 percent more cattle on feed in the fourth quarter of 1971 and placements have continued very large so far this year. These cattle will be going to slaughter during the next 4 to 6 months. Although hog slaughter will be considerably smaller than last spring and summer, the margin under a year earlier will be much less than it was in January.

Larger imports

About two-thirds of our meat imports (on a carcass-weight equivalent) are beef, veal, mutton, and goat subject to the import quota law that took effect in 1964. Under the law, imports have risen along with domestic output, maintaining about a 7-percent portion the past few years. Imports of these meats (mostly boneless chilled or frozen beef for hamburger and processing) didn't rise to the quota levels before 1968. But by mid-1968 it was apparent that the year's imports could trigger the quotas, so the principal supplying countries agreed to restrain shipments. Since then, annual quotas have been set but then have been superseded by higher voluntary restraint agreements with suppliers.

Thus in 1972, quotas were imposed in March and at the same time suspended. The import estimate, based on the voluntary restraint program, is 1.24 billion pounds, nearly 200 million pounds above the suspended base quota. It is also nearly 7 percent larger than the 1971 voluntary restraint level and about a tenth over actual arrivals last year.

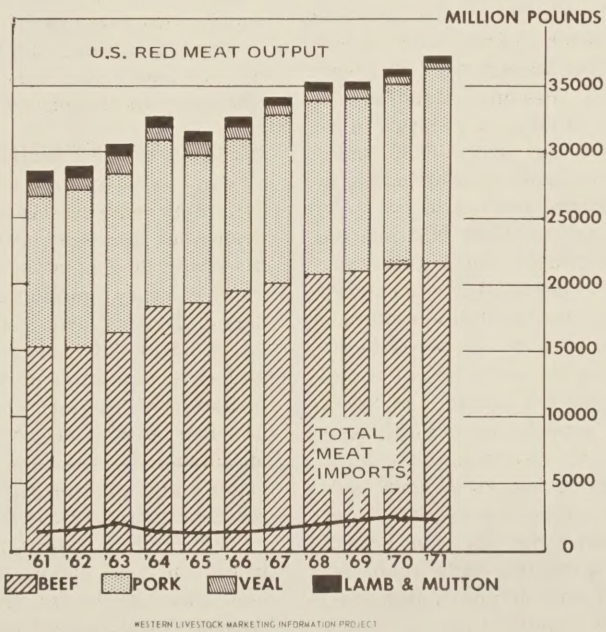
What will this addition do to the domestic market? Estimates suggest it may lower the farmer's price for all cattle by 30-40 cents per 100 pounds below what it would be with no increase in imports. However, the primary effect will be on cow prices, rather than on fed cattle prices, since the imports are mainly of cow beef quality, and aren't used in steaks and roasts.

Translated to the retail level, this effect could reduce the average price of beef by a penny a pound.

WANT TO GO DEEPER?

The job of this digest is to present the gist of current outlook reports from USDA. If you would like more detailed information on any of the topics discussed in this issue, write Agricultural Outlook Digest, Economic Research Service, U.S. Department of Agriculture, Washington, D.C. 20250, indicating the topics, and we'll send you the original reports.

GROWING MEAT SUPPLY



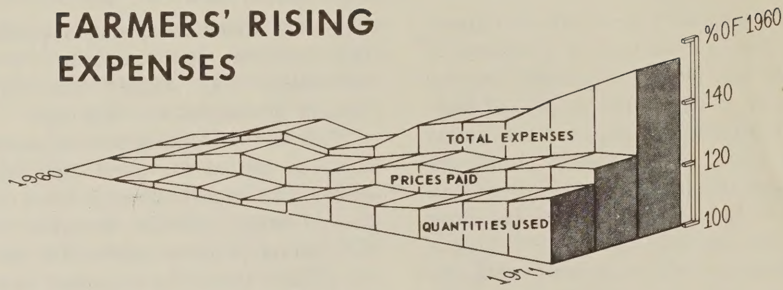
Imports add about 6 percent to our growing annual supplies of red meats. Although smaller pork output is expected to offset larger beef output for 1972, meat production has risen considerably in the long term. Since 1961, U.S. output of red meat has risen over 5 billion pounds to more than 37 billion pounds. Imports also have increased. Translated from a product weight to a comparable carcass weight equivalent, they added a little more than 1 billion pounds to domestic output in 1961, but over 2 billion pounds in 1971.

Farmers' expenses have risen 60 percent since 1960 and will probably rise another 3½ percent to \$44½ billion in 1972. Higher prices accounted for 55 percent of the decade's farm cost gain, and larger quantities used accounted for 45 percent.

Most of the gain in quantities used since 1960 has come from such farm-originated inputs as feed and livestock; the quantity of nonfarm inputs has scarcely increased. The bulk of higher prices since 1960 reflects higher prices paid for nonfarm inputs such as labor, machinery, taxes, and interest. Fertilizer was the one nonfarm category not afflicted by big price rises.

Farm costs this year are not expected to repeat the rise of nearly 5 percent they registered in 1971. A host of inputs which rose unusually fast last year—feed, seed, pesticides, fertilizer, petroleum fuels and oils, and insurance—will rise more slowly this year. The Cost of Living Council should help with general restraints on wage and price increases.

A DECADE OF FARMERS' RISING EXPENSES



On the other hand, look for larger feeder livestock outlays due to strong demand for replacement animals. And, with higher farm income and slightly lower interest rates, the real estate and farm machinery markets will be stimulated, increasing farmers' outlays.

WILL WE SELL MORE RICE?

. . . .This year, yes; in the years ahead, probably not.

Bolstered by food aid shipments, we have managed to almost hold our own in world rice trade over the last few years. The current marketing year is a prime example. Exports are improving about a fourth over 1970/71 on the strength of larger Government-financed shipments to South Korea and South Asia.

Projections to 1980 envision the kind of problems we face in future rice trade. If the developing nations keep up with recent gains in rice production made possible by green-revolution techniques, their yearly output is projected to rise 2-3 percent, as fast as population growth, but permitting no uptrend in per capita supplies. Developing countries would increase trade with each other. International rice prices wouldn't rise any from present levels, and world rice trade would slip from over 7 million tons (milled basis) in 1971 to 6.2 million tons.

What's in this scenario for us? Our own rice output, which we divide about 60-40 between exports and home consumption, would creep up about 1½ percent a year. Exports, supported as usual by P.L. 480 food aid or its 1980 equivalent, would show only slight growth.

There's a second possibility, though. Suppose the developing world pours on the steam to get faster growth in rice production. Rice prices would slide and rice consumption per capita would rise, but the increment would come out of the granaries of the developing nations, rather than from us. We would just have to cinch the belt and grow less rice for export.

EGG OUTPUT EASING

Egg producers are gradually curtailing output, ending a heavy production bulge that last year pushed prices to the lowest level since the early 1940's.

The heavy production upswing began 2 years ago, following high prices in late 1969 and early 1970, and peaked when output hit a record 200 million cases last year. A larger, healthier, and much younger laying flock, invigorated by the new vaccine for Marek's disease, averaged 5 more eggs per layer than in 1970.

But farmers' prices fell 6½ cents below the year before. Prices stayed low early this year but strengthened as demand picked up for Easter.

Higher feed costs until late last summer added to woes. In this climate, 7 percent fewer chicks were readied for flock replacement during the first half of 1972. The flock is slightly smaller this spring than last, but productivity is higher, so output will nip at the heels of higher 1971 levels during the first half.

During the second half, output may run below a year earlier as flock size tapers off and gains in productivity ease.

Egg prices are likely to average moderately above last summer's 29.9 cents a dozen and last fall's 30.7 cents.

BROILER BETTERMENT

Record broiler production in 1971 sold for higher prices. Signs point to a repeat of this combination for 1972, with outlook prospects enchanced by lower feed prices, at least through summer.

With placements off since 1970, the supply flock will be smaller, but the benefits of the Marek's disease vaccine introduced last year will help offset the decline in hens. Its use is resulting in more eggs per hen, greater hatchability, and increased survival of chicks. The flock should be able to provide enough chicks for at least a moderate expansion in broilers raised for 1972.

Broiler prices to farmers in early 1972 strengthened from a year earlier, even though Federally inspected slaughter numbers in early March were running sharply higher on a weekly basis. Prices are likely to continue moderately on the upside, supported by smaller supplies and higher retail prices for red meats, and rising consumer incomes.